

Bates Weston LLP  
The Mills Canal Street Derby DE1 2RJ  
T 01332 365855  
E [enquiries@batesweston.co.uk](mailto:enquiries@batesweston.co.uk)  
[www.batesweston.co.uk](http://www.batesweston.co.uk)

## Year End Tax Planning Guide

### Inside this issue

- Planning potential for director-shareholders
- Planning potential: income tax rates and allowances
- Planning potential: tax and your family
- Planning potential: savings and investments
- Planning potential: Gift Aid
- Year end checklist



## In all things tax, time is of the essence.

Checking that your personal affairs, your family and business affairs, and your plans for the long term are arranged as tax efficiently as possible is always important: and the period before the end of the tax year, on 5 April 2023, is the best time to do so.

This year, such a review may be even more beneficial than usual. Major change to tax bands and allowances has been announced over the course of 2022. This means some last-chance opportunities to make use of allowances at current rates and to access current tax bands. Similarly, there may be areas where you have discretion over the timing of income and it is worth establishing whether income is better taken this year or next. Here again, a review before 5 April 2023 could have a significant effect on your tax position. For Scottish taxpayers, for whom higher and top tax rates are set to increase as well, there is even more to think about.

As your accountants, we have the all-round vision of your circumstances that can really help make an impact. To make the tax rules work to your advantage, it's best to start the discussion as soon as possible before 5 April 2023. We look forward to being of assistance.

In this Briefing, we use the rates and allowances for 2022/23. Please note that throughout this publication, the term spouse includes a registered civil partner.



## Planning potential for director-shareholders

The outlook changes significantly with recent and forthcoming changes:

- change to corporation tax rate for some companies
- fall in the Dividend Allowance from 6 April 2023
- higher rates of income tax on dividends introduced in 2022 set to continue
- fall in additional rate (top rate in Scotland) threshold from 6 April 2023.

### Corporation tax

From 1 April 2023, the main rate of corporation tax rises to 25%. Not every company will pay at this rate, however. Profits exceeding £250,000 will be charged at the main rate, but a small profits rate of 19% applies where profits do not exceed £50,000. Companies with profits under this level, therefore, effectively see no change. For companies with profits between £50,000 and £250,000, the tax rate is tapered. These companies pay at the main rate reduced by marginal relief: essentially, the tax rate increases from 19% to 25% depending on the level of profits. Limits are adjusted where there are associated companies. HMRC has created an online tool to demonstrate how marginal relief works: this can be accessed on gov.uk, by searching for 'marginal relief calculator'.

Director-shareholders in companies with higher levels of profits are likely to need to plan for the cash flow implications of higher corporation tax bills.

### Dividends

The overall picture is less favourable for the future. The Dividend Allowance is set to fall,

while dividend tax rates are at a new high, making the extraction of profits by way of dividend payment more expensive.

Dividends falling within the Dividend Allowance are not taxable, and for 2022/23, the Dividend Allowance is £2,000 per year. From 6 April 2023, however, it falls to £1,000, with a further fall to £500 per year from 6 April 2024. The change is likely to impact more than 3.25 million individuals in 2023/24.

The effect of this change is compounded by the increase in dividend tax rates. From April 2022, rates rose by 1.25 percentage points. They are now 8.75% for dividends falling within the basic rate band; 33.75% for those falling in the higher rate band; and 39.35% where falling in the additional rate band. Though the increase was originally part of the measures around the Health and Social Care Levy, the rates are set to continue, despite the fact that the Health and Social Care Levy has been scrapped.

### Impact on profit extraction strategy

Traditionally, many director-shareholders have relied on a combination of low salary and a significant level of dividend payments to extract profits. Tax advantage has arisen from the availability of the Dividend Allowance, a low rate of corporation tax, and because dividends do not incur National Insurance contributions (NICs) - a saving both for the employer company and the recipient. These advantages are now being undermined.

Dividends are paid out of retained profits, that is profits on which corporation tax has already been paid. In future, for companies with profits above £50,000, this will mean profits subject to a higher rate of corporation tax, and thus

a reduction in the reservoir available to pay dividends. And as the Dividend Allowance shrinks, there will be a much less significant amount available for extraction free of tax. Although incorporation is about more than just tax advantage, these changes make it prudent to keep under review the question of whether a company is the best structure for your business.

### Remuneration: last-chance opportunities

An appraisal of remuneration strategy is always beneficial. The best solution for you will depend on your individual circumstances. Given the increasing burden of income tax for Scottish taxpayers, it may even vary depending on where in the UK you are based. However, in every case, the form (bonus as against dividends) and timing of remuneration take on unusual significance for director-shareholders this year, with the potential to impact the overall tax position even more than usual.

### Planning potential: watch timing

Dividend payment in the 2022/23 tax year gives a last-chance bite at the current higher Dividend Allowance, and the higher additional rate threshold (top rate in Scotland). You may want to consider accelerating payment of dividends if there is scope to do so.

Procedure around declaration and payment of dividends is complex and it is important to check that it is done correctly. In times of economic stress, it is also important to be sure that there are profits available for distribution.

### Here to help

Please do contact us to discuss any of the issues raised here.

# Planning potential: income tax rates and allowances

## A review of planning possibilities in the light of the Autumn Statement, and the Budgets in Wales and Scotland.

Key points to note are:

- the personal allowance (PA) is frozen at £12,570 until 5 April 2028 across the UK
- the basic rate band is frozen at £37,700 for the same period (England, Wales and Northern Ireland). This means that the point at which someone with the standard PA starts to pay higher rate tax continues to be £50,270 until 2028
- the additional rate threshold (top rate threshold in Scotland) falls from £150,000 to £125,140 from 6 April 2023. Note too, that £125,140 is the figure at which all PA is lost (see below)
- no change to tax rates in England, Wales and Northern Ireland.

### Year to 5 April 2023

Band	Income	Tax rate
Basic rate	£12,571 to £50,270	20%
Higher rate *	£50,271 to £150,000	40%
Additional rate *	Above £150,000	45%

\* Note that the additional rate threshold falls from 6 April 2023.

### Wales and Scotland

Although Wales is able to set certain tax rates, the position for Welsh taxpayers in 2023/24 is expected to be the same as for English and Northern Irish taxpayers. In its latest Budget, the Welsh government reiterated that it will not increase the Welsh rate of income tax 'for at least as long as the impact of coronavirus lasts'.

The position is different in Scotland, where the December 2022 Budget announced:

- change in the top two income tax rates from 6 April 2023, meaning that the Scottish higher rate thus rises to 42%, and the top rate to 47%
- the top rate threshold will fall to £125,140 from the same date.

Band	Income	2022/23	2023/24
Starter	£12,571 to £14,732	19%	19%
Basic	£14,733 to £25,688	20%	20%
Intermediate	£25,689 to £43,662	21%	21%
Higher	£43,663 to £150,000/£125,140 *	41%	42%
Top	Above £150,000/£125,140 *	46%	47%

\*Note that the top rate threshold falls from 6 April 2023.

### Impact of recent announcements

Much has been made of these changes representing a 'stealth' tax, because as wages rise, a bigger slice of income falls to be taxed. This will be

particularly noticeable in a time of inflation. Freezing the PA and basic rate band, for example, will push more people into the higher rate tax band. There will be a similar effect in Scotland, where the tax burden for some individuals is already higher than for equivalent earners elsewhere in the UK. And for Scottish taxpayers, it is also important to factor in the increase in the top two rates of tax, as well.

Lowering the additional rate (top rate in Scotland) threshold will significantly increase the tax take from those on higher incomes. It is expected to bring something approaching a quarter of a million more taxpayers into additional rate tax from 2023/24.

### Last-chance opportunities

Where income is expected to be between £125,140 and £150,000 in 2023/24, bringing income into 2022/23 could mean the difference between being taxed at 40% in 2022/23, rather than being taxed at 45% in 2023/24; or between 41% and 47% in Scotland. Scottish taxpayers may also want to accelerate income to reduce the impact of the 1% rise to both the higher and top rates of income tax.

There are a variety of ways that this may be done, and we can help you review the possibilities in your circumstances.

### Getting the best out of the personal allowance

Everyone has a PA. Look, wherever possible, to use the PAs available in your household. Now that the PA has been frozen, planning to avoid its being wasted assumes new importance.

The standard PA is £12,570 throughout the UK. It can be higher if you are eligible for the Blind Person's Allowance; or have an income less than the PA, and are eligible to make a transfer of what is called the Marriage Allowance to your spouse.



You start to lose the PA if you have what is called 'adjusted net income' over £100,000. Adjusted net income is, broadly speaking, total taxable income *before* personal allowances, but *after* some deductions such as Gift Aid. The PA is clawed back by £1 for every £2 of adjusted net income over £100,000. When income is £125,140 or more, all PA is lost.

### Planning potential: keeping the personal allowance

If you are in the £100,000 - £125,140 income bracket, planning to keep your taxable income below £100,000 can help you keep the PA. There are various possibilities here, including the following:

- where one spouse is in a lower tax band, married couples may have opportunities to redistribute income, or transfer income-producing assets
- there can be further planning potential if you are in business with your spouse. If you are in partnership, for example, it may be possible to review the profit-sharing ratio. If you are self-employed, increasing wages for a spouse who works in the business is another possibility, provided that this is commercially justifiable and reflects the underlying reality of the way your business is run.

These are areas in which it is important to make sure that arrangements are fully compliant with relevant legislation, and we should be happy to advise further. Do please talk to us prior to action.

# Planning potential: tax and your family

Looking at household income in the round, and planning to make optimal use of all allowances available is likely to create the most tax-efficient solutions.

## You and your spouse

The income of each spouse is taxed separately, with each party being entitled to a personal allowance. Capital gains are also taxed separately, each party having their own annual exemption (see below).



Where you each have a different tax band, a key part of planning is getting the right distribution of income between you. This can ensure that the personal allowance of the lower income spouse is not wasted, and give access to lower tax bands. Transferring income-producing assets, such as property, stocks and shares, or even bank accounts, can be an efficient way to do so. Anti-avoidance legislation exists in this area, and we recommend taking advice prior to any action, to ensure that any arrangements are compliant. It is important, for example, that the transfer is an outright gift, with the donor no longer exerting control over it, or deriving a benefit from it. Appropriate evidence of such transfer is needed.

### Planning potential: allocate income

An optimal allocation of income between spouses can only become more important in the future, especially with the fall to the additional rate (top rate in Scotland) threshold for income tax.

## High Income Child Benefit Charge (HICBC)

Where either you or your partner get Child Benefit, and have adjusted net income more than £50,000, the HICBC applies. Note that for the HICBC, 'partner' doesn't just mean spouse or civil partner, but includes someone you live with as if you were married.

The HICBC claws back Child Benefit at a rate of 1% for every £100 of income between £50,000 and £60,000. By the time income is £60,000, all Child Benefit payment is effectively lost. You can disclaim payment in these circumstances, to avoid having to pay the charge: but it is usually



recommended that the actual claim itself is continued, in order to maintain eligibility for the State Pension.

If both you and your partner are over the income threshold, HICBC is the responsibility of whoever has the higher income. Where income reaches £50,000, the taxpayer has an obligation to notify HMRC of their liability to the charge. HMRC may make the initial contact, but this should not be relied upon.

### Planning potential: the HICBC

Think tactically where there is discretion over how income is distributed between you and your spouse. £100,000 split equally between you and your spouse, for example, keeps you out of HICBC: if it is all taxable on one spouse, the benefit of Child Benefit payment is lost. We can help you review ways to reduce or redistribute taxable income in your circumstances.

## Tax and your children



Children are treated independently for tax purposes. They have their own personal allowance, annual capital gains tax exemption and their own basic rate tax band and savings band. From a tax perspective, it is usually more efficient for grandparents - rather than parents - to provide funds for investment for under-age children.

When it comes to funding children through university, parental input is increasingly common, and the purchase of housing is something often considered. It is important that any such arrangement is structured correctly. Key questions are who owns and buys the property - whether it is the parents, or the parents and child together, or whether the child is provided with funds to make the purchase. The tax and legal implications need to be thought through, alongside your personal and family preferences.

### Planning potential: the rent-a-room scheme

Children living in a property at university which they own outright, and letting out furnished accommodation in the property, may be able to benefit here. Provided the relevant conditions are met, the scheme could allow them to earn up to £7,500 in rent, free of tax. When added to the personal allowance, this provides scope for £20,070 in tax-free income.

# Planning potential: savings and investments



## Savings

Interest of up to £1,000 from savings such as bank and building society accounts, unit trusts, and trust funds, can be sheltered from tax by the Savings Allowance. Availability of the allowance depends on your tax band.

Income tax band	Savings Allowance
Basic rate	£1,000
Higher rate	£500
Additional rate	£0

The allowance applies across the UK. Scottish taxpayers therefore need to assess their savings position based on UK rates.

## Individual Savings Accounts (ISAs)

ISAs are sometimes referred to as a tax 'wrapper' for investments: they allow you to make a tax-efficient investment, rather than dealing directly in the investment market and facing the tax consequences attaching.

The tax benefits here are considerable. ISAs are free of income tax and capital gains tax and do not impact the availability of the savings or Dividend Allowance.

Anyone over the age of 18 (or 16 for a cash ISA), who is resident in the UK, can open an ISA: for Lifetime ISAs, applicants must also be under the age of 40. Crown servants and their spouses not living in the UK are also eligible. Junior ISAs are available for children under 18.

There are four types of ISA: cash ISAs, stocks and shares ISAs, innovative finance ISAs and Lifetime ISAs. The total you can invest in any tax year is set by the government: for the tax year 2022/23, it is £20,000. This can be allocated across the different types, as you choose.

Although you cannot hold an ISA with, or on behalf of, someone else, you and your spouse each have an ISA subscription limit: this means you can invest £40,000 between you. It is also possible to open and manage an ISA for someone lacking the mental capacity to do so for themselves. This is done by applying to the Court of Protection for a financial deputyship order. In Scotland, application would be to the Office of the Public Guardian in Scotland.

## Planning potential: review your position each year

ISA limits cannot be carried into future years. Use it before 5 April 2023, or lose it.

## ISA subscription limits

Type of ISA	2022/23 limit
Cash ISA	£20,000
Stocks and shares ISA	£20,000
Innovative finance ISA	£20,000
Lifetime ISA	£4,000
Junior ISA	£9,000

Looking forwards, once the capital gains tax annual exemption falls from 6 April 2023, ISAs become an even more important tool for tax planning.

## Tax-efficient investments

The venture capital schemes, providing finance for new, higher-risk companies, continue to afford individual investors with a significant source of tax relief.

The Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs) were subject to sunset clauses in the original legislation, but have now been given a new lease of life. The government has given a commitment to extend them beyond 6 April 2025, and is changing some of the detail of the rules to provide more generous relief. This is the case with the SEIS, which offers the potential for 50% income tax relief, and where, from 6 April 2023, the annual investor limit doubles to £200,000. Please do talk to us for further details of any of these schemes.

# Planning potential: capital gains tax

A phased reduction in the capital gains tax (CGT) annual exemption is on the horizon. Currently £12,300, the exemption falls to £6,000 from 6 April 2023. A further reduction takes effect from 6 April 2024, when it drops to £3,000. The move is expected to raise an additional £25 million in tax revenue in 2023/24 alone, and it makes planning in this area even more important.

A key component of any such planning is to make best use of the annual exemption. It is possible to transfer assets between you and your spouse on a no gain/no loss basis in order to make best use of the exemption. It is essential to get the detail of any transfer correct. Do please discuss any disposal with us first to make sure that it is effective for tax purposes.

CGT is charged at a lower rate of 10% (18% on residential property) for UK basic rate taxpayers and 20% (28% on residential property) for UK higher and additional rate taxpayers. Where one spouse is a higher rate taxpayer, and the other has not used their basic rate band in its entirety, transfer of assets thus has the potential to enable access to the 10% tax rate, rather than the 20% tax rate. Note that Scottish taxpayers pay CGT based on UK rates and bands and therefore need to assess their position based on UK rates.



# Planning potential: Gift Aid

It is not always appreciated that donations made under Gift Aid aren't just good for the recipient charity or community amateur sports club. They can also be a useful planning tool for the donor – and even generate tax refunds for some taxpayers.

## Gift Aid benefits donors, too

Gift Aid donations work to your advantage in reducing the calculation of your taxable income. This means that a timely gift before 5 April 2023 may help keep income under various key tax thresholds, such as:

- High Income Child Benefit Charge, where clawback starts for income above £50,000
- abatement of the personal allowance, from £100,000
- the additional rate threshold (top rate in Scotland).

## Tip: repayment potential

If you pay tax at more than the basic rate, you are entitled to claim tax relief at your top rate of tax on the donation. This means that you get the difference between the basic rate and higher rate tax on the donation. In the year to April 2022, HMRC statistics suggest that some £540 million was due in such relief. Many higher rate taxpayers, however, fail to claim the repayment due.

A repayment claim is made either via the self assessment tax return, or by asking HMRC to amend the tax code. Make sure there is a valid Gift Aid declaration in place for all gifts, and that you record the date, amount of each gift and name of the recipient charity to back up your claim.

## Timing is everything

A carry back election can be made, meaning Gift Aid donations are treated as if made in the previous tax year - something which can be of benefit, for example, where income is uneven. Strict time limits and other rules apply here, and we are happy to advise further.

## Tip: decide which tax year to use

If you are likely to pay higher or additional rate tax (top rate in Scotland) in 2023/24, Gift Aid donations in that year should have the potential for a larger repayment. If you are making any substantial donation, and you have discretion over timing, consider whether a donation in 2023/24 is preferable to one in 2022/23.

## Compliance

HMRC statistics in 2021 showed a tax gap attributable to Gift Aid of around £179 million: that's the figure claimed by donors who are not, in fact, eligible to use the scheme. It's always important to check that you have enough income tax or capital gains tax in charge to cover Gift Aid donations. Where there is an error, the donor rather than the charity or CASC, has to make good the shortfall.

## Year end checklist

- Evaluate last-chance opportunities to access current tax rates, tax bands and allowances
- Director-shareholders: review profit extraction strategy
- Maximise allowances available across the family
- Take advantage of 2022/23 ISA allowance
- Assess payments made under Gift Aid
- Review and update pension arrangements
- Re-examine wills and estate planning
- Be aware that reviewing your affairs before 5 April 2023 gives the best scope for tax efficiency.

## Working with you

We are here to help: so please make good use of us. This guide is designed to help identify some of the areas that could have a significant impact on your overall tax position. Please consult us in good time to maximise the opportunities available.